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sunshine fresh: choosing a business location

Professors Lawrence A. Plummer and Simon C. Parker wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was July 2014, and serial entrepreneur William (Bill) Rosenblum, president and co-owner of Sunshine Fresh Inc. (Sunshine), parked his car in front of the office on his way to talk to his son, Michael Rosenblum, vice-president of sales. Sunshine, a food service manufacturing company in Totowa, New Jersey, had built a strong reputation on the East Coast of the United States for its kosher pickles. Among Sunshine’s most valued clients were several casinos located in Atlantic City, New Jersey, and headquartered in Las Vegas, Nevada. Recently, a food purchaser for one of these casinos had casually mentioned to Michael that his casino’s customers in Las Vegas would also love to have Sunshine’s pickles. This brief exchange initiated an expansion plan and a need to choose a location for Sunshine’s West Coast operation. The question was, where was the best location for Sunshine’s new pickle plant?

SUNSHINE FRESH: THE COMPANY

Sunshine started in 1965. It had some success operating in New Jersey until a string of bad luck started to strain the company. In the mid-1990s, Daniel DeRose, president of international food manufacturer Major Products Co. Inc. (Major Products), wanted to buy Sunshine. Major Products was based in Little Ferry, New Jersey, and had four plants in the United States, Canada, and the United Kingdom. DeRose asked Bill to join him as his business partner and to lead Sunshine on a daily basis as company president.

Bill was well known and well regarded in the food industry on the East Coast, and he seemed to be the perfect choice to reinvigorate a promising company like Sunshine. He had graduated from New York University (NYU) with an executive master of business administration (MBA) degree, and he was a third-generation entrepreneur who had built a respectable string of companies all connected to the food industry. Together with his twin brother, Jerry, Bill had revived and expanded the family’s food distribution business, J. Rosenblum and Sons, making it one of the largest food distributors east of the Mississippi River. At a very young age, both brothers went to work for their father, Milton, who had taken over the business from Bill’s grandfather, Jay Rosenblum. By the age of 16, Bill and Jerry knew the business well enough to be entrusted with running the company while their parents were out of town. Over time, Bill became company president, while Jerry served as vice-president of sales and marketing. Anticipating industry consolidation in the mid-1980s, Bill and his brother sold J. Rosenblum and Sons to Kraft Foods Inc. and set their eyes on new opportunities. Bill’s later ventures included a kitchen hairnet manufacturing business in Mississauga, Ontario, and a chef’s clothing business, Chef Revival.

Once he was on board at Sunshine, Bill relied on two key people. He brought in his son Michael to direct the company’s sales efforts. Michael—also an NYU MBA graduate, an entrepreneur, and a skilled salesman—was key to strengthening Sunshine’s relationships with the casinos in Atlantic City. The other key player was Tim Santora, who was with Sunshine when Bill signed on. Santora was an expert on pickles, brine recipes, and production, and he was indispensable to Sunshine’s processing, warehouse, and distribution operations.

Sunshine’s products included full- and half-sour pickles, pickle spears, and sliced pickle chips. Over time, Sunshine also offered bread-and-butter pickles, relishes, fresh-cut sauerkraut, and pickled tomatoes. Unlike retail pickles sold in supermarkets, Sunshine’s products were “refrigerator-style”—that is, wholesale orders were sold to restaurants, delicatessens, and eateries for immediate consumption. Among Sunshine’s best customers was a group of Atlantic City casinos, which purchased Sunshine’s products to serve in its restaurants, delicatessens, steakhouses, and classic all-you-can-eat buffets. For many patrons, the all-you-can-eat buffet was an essential part of the full casino experience.

A simple product like pickles (essentially, cucumbers steeped in a watery brine of spices and flavourings) required vast quantities of water, fresh cucumbers, spices and seasonings, and five-gallon plastic buckets for packaging. The operation also required employees to make the pickles, manage the warehouse, and handle shipping and receiving. In addition, the production line featured several machines for washing, slicing, brining, and packaging the product—all operated under the food safety supervision of the state of New Jersey and the rabbis who certified the operation as kosher.

As Bill became familiar with the cost drivers of Sunshine’s business, he introduced some key improvements. First, he began sourcing cucumbers from farmers nearby in the state of Delaware, rather than bearing the costs of sourcing produce from farmers in Florida, Michigan, and Mexico. Bill knew from his experience as a food distributor that good-quality cucumbers could be sourced more quickly and cheaply from farms within a day’s drive (i.e., about 200 miles) of Sunshine’s location.

Second, Bill developed and patented his “Keg-Away” packaging system, which allowed Sunshine to ship its product in two 2.5-gallon resealable plastic bags packed inside a cardboard box instead of the five-gallon plastic buckets.[[1]](#footnote-1) The plastic buckets—better known for holding commercial quantities of paint—had two major drawbacks. First, they were expensive and sensitive to the global price of oil. Second, the buckets were cylindrical—a geometric shape despised by chefs and kitchen managers trying to maximize space in walk-in refrigerators. As one chef told Bill, “Heck, I’d buy your product based on the square packaging alone.”

By the time the idea of a West Coast operation came up, Sunshine’s operation in New Jersey employed 30 people using roughly 20,000 gallons of water to produce and deliver the equivalent of about 10 40-foot trailer truckloads of pickles every week.

THE WEST COAST LOCATION DECISION

Late in 2012, as part of his ongoing customer relations, Michael made a sales visit to Harrah’s Resort in Atlantic City—one of Sunshine’s top customers—to meet the casino’s food purchaser. The purchaser, who handled Harrah’s purchasing in Atlantic City and Las Vegas, planted the seed of an idea. Michael recalled that the purchaser said to him offhandedly, “You know, we would love to have your pickles in Las Vegas, but we won’t pay for the freight.” From this comment, the idea of a West Coast operation was born.

As he thought about this expansion, Bill knew that a location would have to balance some competing criteria: First, the location would have to allow access to all of the Western United States in general, and to Southern California and Las Vegas in particular. By Bill’s reckoning, the Los Angeles area was perhaps the largest food service market in North America, yet Sunshine’s ready-to-go customers were in Las Vegas. The company would also need access to the cucumber farms located between Fresno and Bakersfield in Central California’s San Joaquin Valley.

Second, because pickles were a commodity business, the location would have to offer the lowest operating costs possible without compromising market access. Third, the location would need access to a major airport. Fourth, DeRose’s company, Major Products, already operated a soup-base manufacturing plant in San Francisco, which was a particularly expensive location. Thus, another criterion was that the location should offer a facility large enough for Sunshine and Major Foods to share; Major Products would take one half, while Sunshine would operate in the other half of the new facility.

Finally, Bill knew from the New Jersey operation that Sunshine would be relying on less-than-full (LTL) freight for shipping. Unlike full-truckload (FTL) freight, whereby an entire truckload was contracted to one customer and shipped directly, Sunshine’s LTL shipments would travel with products from other companies and might briefly pass through a refrigerated distribution centre while en route. As a result, fulfilling urgent orders would be a bit more difficult via LTL shipping, so Sunshine’s location would have to take the company’s LTL logistics into account.

Knowing he needed trustworthy people committed to Sunshine’s success to run the West Coast operation, Bill chose his son Michael and his production supervisor Santora to lead the new division. Bill, Michael, and DeRose travelled the Western United States researching locations, including Denver, Los Angeles, and Las Vegas. With ready access to Las Vegas in mind, they cut Denver from the list; this left Los Angeles and Las Vegas as the two top contenders (see Exhibit 1).

The Case for Los Angeles

Sheer size was the primary selling point of Los Angeles. With over 13 million residents, five commercial airports, a metropolitan gross domestic product (GDP) of US$867 billion,[[2]](#footnote-2) and more than 27,000 eating establishments, Los Angeles represented a massive opportunity. The city hosted the headquarters of a number of national restaurant chains, including In-N-Out Burger, California Pizza Kitchen, CKE Restaurants Inc., The Cheesecake Factory, DineEquity Inc., Baja Fresh, and Taco Bell. Even Los Angeles’s notorious traffic suggested it might be the better location. Because the city was infamous for jammed roads, it seemed unwise to try to serve Los Angeles’s food market from too far away. Further, Bill and his team recognized that Los Angeles was a major LTL hub for the entire United States, not just the West Coast; this was another selling point, because Los Angeles’s shipping infrastructure could easily connect Sunshine to cities like Portland and Seattle to the north, and Denver and Phoenix to the west.

Seeking a location that could also supply Las Vegas, Bill and his team narrowed the search to the east side of the Los Angeles Basin. City of Industry, for example, was located approximately 20 miles east of downtown Los Angeles, and offered a good selection of commercial properties, a large workforce, city water and wastewater services, and three clear routes to Interstate 15, the main highway to Las Vegas, located 260 miles to the northeast. Similarly, Anaheim offered many of the same benefits as City of Industry, plus a notable potential customer—Disneyland—and easier access to John Wayne Airport in Orange County.

California’s business rules were also a consideration. For example, making pickles created highly acidic water effluent; in New Jersey, the company diluted this effluent and treated it to neutralize the acidity, then discharged it into a municipal treatment plant. California’s regulations, however, would require a different and more expensive treatment approach before effluent could be discharged to a city wastewater facility. Further, Sunshine would be subject to both city and state business and personal income taxes.

The Case for Las Vegas

Aside from its proximity to Sunshine’s casino customers, a desert city like Las Vegas seemed like an odd choice as a location for a water-intensive operation like pickle manufacturing. Located in the Mohave Desert, Las Vegas relied on Lake Mead for its water, which was quite far from Northern California’s cucumber growers. Nevertheless, Las Vegas seemed to promise lower operating costs than Los Angeles did.

In fact, in 2014, Las Vegas was making a concerted effort to diversify its local economy. The city’s lack of economic diversity was painfully highlighted by the terrorist attacks of September 11, 2001. In the six months following the attacks, the city’s tourism industry all but shut down, bringing the Las Vegas economy almost to its knees. Seeking to diversify beyond tourism and hospitality, Las Vegas was offering companies like Sunshine incentives to set up shop in the city. As Bill and his team learned, the city would subsidize Sunshine’s supply of water and some of its labour costs.

However, Las Vegas did pose some challenges. First, companies like Sunshine were essentially non-existent in Las Vegas, and the city had never enacted rules governing food manufacturers. As a result, Bill learned that Sunshine would be required to operate under food safety rules that applied to restaurants. At first, this was a concern—achieving restaurant-level cleanliness in a manufacturing facility seemed a daunting prospect—but Bill ultimately realized that his own standards for cleanliness and those required for kosher certification would exceed the city’s mandates.[[3]](#footnote-3)

Second, nearly every pound of Sunshine’s product leaving Las Vegas would probably pass through Los Angeles. Given Sunshine’s LTL logistics, Bill and his team knew that “hitching a ride” to any city other than Los Angeles was unlikely, because no company was sending LTL shipments from Las Vegas to cities like Portland, Seattle, and Denver. However, there was a positive aspect: because Las Vegas was an LTL “end-of-line” destination, most food trucks arriving in Las Vegas went home empty. Sunshine, it turned out, could take advantage of occasional “backhaul”—that is, it could purchase space on empty refrigerated trucks returning to Los Angeles. In most cases, the backhaul shipping rate effectively paid for the fuel needed for the return trip to Southern California.

THE DECISION

Bill left his car and walked across the parking lot to his offices. On the way, he reviewed the various arguments for locating in either Los Angeles or Las Vegas (see Exhibit 1). Having reviewed each location with Michael, DeRose, and Santora, he felt increasingly sure about the best way to proceed.

Exhibit 1: SUNSHINE FRESH INC. COMPARISON: Los Angeles versus Las Vegas

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| --- | --- | --- |
|  | **Los Angeles** | **Las Vegas** |
| Refrigerated shipping rates | Full rates for all shipping;  LTL distribution hub | Full rates; some LA backhaul  LTL “end-of-line” destination |
| Estimated hourly wages | $11.50 to $12.00 per hour  $9.00 per hour minimum wage | $9.50 to $10.00 per hour  $7.25 per hour minimum wage |
| Warehouse/distribution, average rent per square foot | $7.80 | $6.60 |
| Business and income taxes | State/city business taxes  State/city personal income tax | No business taxes  No personal income taxes |
| Commercial water/wastewater, combined costs (per 100,000 gallons) | $1,208 per month | $623 per month |
| Effluent discharge rules | Dilution and pH treatment plus additional processes/technology | Dilution and pH treatment of effluent (same as New Jersey) |
| Average distance to Bakersfield and San Joaquin Valley | 113 miles | 286 miles |
| Population | 13.3 million | 2.1 million |
| Hotel accommodation and food services establishments | Accommodation: 1,698  Food services: 27,114 | Accommodation: 299  Food services: 4,020 |
| GDP  2013–2014 change in GDP | $867 billion;  2.3% | $95 billion;  4.4% |

Note; All currency amounts are in US$.

Sources: Created by the case authors based on shipping and wage rates from William Rosenblum, Michael Rosenblum, Tim Santora, the California Department of Industrial Relations, and the City of Las Vegas; rent information from Colliers International, “Industrial Market Outlook”; tax information from California and Nevada state governments; water/wastewater rates from Black and Veatch, “50 Largest Cities Water/Wastewater Rate Survey, 2012 / 2013”; effluent discharge rules from Michael Rosenblum; distances from Google Maps; population and business establishments numbers from United States Census Bureau, Population and County Business Patterns files available at census.gov; GDP and growth figures from “Gross Domestic Product by Metropolitan Area, 2015,” Press Release, U.S. Bureau of Economic Analysis, accessed March 20, 2016, www.bea.gov/newsreleases/regional/gdp\_metro/gdp\_metro\_newsrelease.htm.

1. The packaging was licensed to Sunshine Fresh under U.S. Patent #6872413. [↑](#footnote-ref-1)
2. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-2)
3. The same was true for DeRose and Major Products, which operated under federal United States Department of Agriculture meat inspection regulations that exceeded Las Vegas’s food safety requirements. [↑](#footnote-ref-3)